

501 OPERATING RESERVE CASH (ORC) POLICY

This policy provides guidance regarding the Operating Reserve Cash account and the distribution of funds from the account. The following topics will be covered:

Purpose of Operating Reserve Cash

Contributions to ORC

Eligible Expenses

Requests for ORC Disbursement

MSHDA Processing of ORC Requests

Loan Default, Recapture, or Other Obligation Event

Discharge of the Mortgage Loan

Purpose of Operating Reserve Cash

The Operating Reserve Cash (ORC) account holds operating cash for the development. As part of the regulatory requirements, the Authority retains a portion of the surplus cash. The development may use the funds for operational expenses and the Authority may use the account to make operational disbursements, when necessary.

Contributions to ORC

The primary contributions to ORC come from a portion of surplus cash calculated annually as part of the certified annual audit performed on the development. Surplus cash is excess funds remaining after paying all allowable expenses attributed to the operation and funding all of the reserves and obligations of the housing development. For details regarding the calculation refer to the certified annual audit guidelines.

Funds on deposit in the ORC account are invested by the Authority's Finance division and remain in control of the Authority until disbursement. Interest earned on the funds deposited in the ORC, if any, accumulate in the ORC account and are treated in the same manner as other ORC funds.

If the tax and insurance escrow accounts generate a surplus during a calendar year, the surplus may be deposited into the ORC account. The authority may also deposit funds released from other escrow accounts such as the Operating Assurance Reserve (OAR) account into the ORC account.

Eligible Expenses

Development operating expenses can be paid from the ORC account based on the priority set forth in the Management Agreement under Section 5m – Expense Management. Eligible expenses include:

- Payments to maintain the fiscal and physical integrity of the development, including items not eligible for reimbursement from the Replacement Reserve;
- Expenses/payables projected to come due without operating funds being available in the next 30 days, and;
- Limited distribution payments as permitted by the development's regulatory agreement.

Requests for ORC Disbursement

The Owner/Agent must submit a written request for ORC disbursement to the assigned Asset Manager in order to receive ORC funds. The request must include the following:

- An explanation of the intended use of the funds.
- Evidence of the current cash position of the development.
- The amount of the request, which must exceed \$1000.

MSHDA Processing of ORC Requests

Upon receipt the assigned Asset Manager will review the development's financial eligibility for approval of the ORC request. The following items shall be considered:

1. Liquidity of the development
 - a. The ORC account balance is included in the liquidity calculation, so subtract the ORC balance from the liquidity amount to determine the actual on-site liquidity.

Liquidity Calculation:

Liquidity = **Total Operating Cash + Receivables** (Tenant Receivables + Subsidy Receivables (Tenant Based) + Other Subsidy/Grant Receivables + Laundry and Carport Receivables + Commercial Income Receivables + Interest Receivables + Excess Rental Income + Other Current Resident Receivables + Non-resident Receivables + Related Party/Affiliate Receivables + Other Receivables) – **Payables** (Total Accounts Payables - Prepaid Rent – Delinquent Mortgage Interest – Other Accrued Interest – Delinquent Mortgage Principal – Affiliate Contributions/Advances – Repayments to Affiliates – Total Prior Tenant Receivables) + **ORC balance**.

- b. Developments can maintain up to one month's Gross Rent Potential (GRP) in the development's on-site operating account.

Calculation to bring Operating Cash up to One Month's GRP:

Amount to be processed = One month's GRP – (Operating Cash + Receivables – Vendor payables)

2. Explanation regarding how the funds will be used. The fund will:
 - a. Pay for operating expenses that provide an **operating benefit** to the development and for which the development does not have the money on-site to support.
 - b. Pay Escrow account shortages, such as tax and insurance deficits or replacement reserve needs.
 - c. Bring the on-site operating cash up to one month's GRP.
 - d. Pay a limited distribution request as permitted by the development's regulatory agreement and designated as a source of funds by the limited distribution approval from MSHDA.

The assigned Asset Manager verifies that the draw meets the eligibility and financial requirements. The processing time should be completed within 30 days of receipt by MSHDA.

Loan Default, Recapture, or Other Obligation Events

In the event that the Mortgage Loan, NSP Loan, HOME Loan, TCAP or other MSHDA held mortgage note is accelerated after a default by the Mortgagor, or the Mortgagor becomes liable for a Recapture Obligation, the Authority may, in its sole discretion, but is not required to, apply any funds on deposit in the ORC to the amount due on the loan or to satisfy the Recapture Obligation unless otherwise stated in the Regulatory Agreement.

Additionally, in the event that the Authority receives a tax or insurance invoice and there are insufficient funds in those escrows to cover the payment, the Authority may, in its sole discretion, but is not required to, apply any funds on deposit in the ORC to the amount due on a tax or insurance invoice to satisfy payment.

Discharge of the Mortgage Loan

Upon payment in full and discharge of the Mortgage Loan, Preservation Fund Loan, and any other obligations to the Authority, any funds remaining in the ORC account (including the accrued interest) after payment to the Mortgagor of all allowable Limited Dividend payments, shall be the property of the Authority. The Mortgagor's rights to the ORC funds are limited to the rights stated in the Regulatory Agreement.